INDIANA LONG TERM CARE INSURANCE PROGRAM

Retire with Confidence

The Need for Long Term Care

- One of two women and one of three men who reach the age of 65 will use a nursing home at some point during their lives.
- 40% of nursing home residents are between 18 and 64 years of age.
- Seven in ten individuals will need home health care.

What is LTC? Long term care is the kind of care a person needs when he/she is unable to care for him/herself due to illness, frailty, or cognitive impairment.

LTC is not just for the elderly.

The need for LTC increases with age.

Nursing home statistic of 1:2 women and 1:3 men is from: (Murtaugh, Kemper and Spillman, "*The Risk of Nursing Home Use in Later Life*," Medical Care, Oct. 1990.)

Home health care statistic is from Business Week.

The Cost of Long Term Care

- In 2002, the average cost of nursing home care in Indiana was $121 per day or $44,165 per year.
- The cost for a home health aide to provide assistance for eight hours a day, five days a week, for a year, is more than $15,000.
- Care in an assisted living facility averages $1,800 to $2,000 per month.

Long term care is expensive!

The cost of care varies according to location. Costs are higher in metropolitan areas than rural areas.

Cost of care is increasing and is expected to continue to increase as more and more people require care.

Adult Day Care ranges from $8,000 to $12,000 per year.

Who pays for Long Term Care

- **Medicare:** Nationally, pays for less than 5% of nursing home costs.
- **Private-Pay:** 32% of long term care costs are paid by private-pay means.
- **Medicaid:** Pays for approximately 63% of all long term care costs. (After nearly all assets are gone.)

Medicare: For nursing home care, only skilled care is covered. Skilled care is care by a nurse or licensed therapist. Also, the individual must have been in the hospital for a minimum of 3 days before going to the nursing home, and must go to a Medicare-certified nursing home. The most Medicare will pay is 100 days per benefit period. The first 20 days, Medicare pays in full. The remaining 80 days, Medicare will pay after the individual pays a daily co-payment of $109.50 (2004 figure). Again, Medicare stops paying after day 100.

Private Pay: Private pay means either with private insurance or out-of-pocket. Since most persons haven't yet insured themselves against the risk of long term care, the majority of those who private pay are paying out-of-pocket.

70% of persons entering a nursing home who begin by paying out-of-pocket will become Medicaid eligible within a year.

Medicaid: Medicaid is a federal & state program for health care for people who cannot afford their own care. People have to prove "they cannot afford" their own health care.

Financial eligibility criteria—in looking at just the asset criteria, an individual cannot have more than $1,500 in countable assets to qualify for Indiana Medicaid assistance. (Countable assets include savings & checking accounts, IRAs, certificate of deposits, cash, and possibly the home.)

Indiana Long Term Care Insurance Program

- The ILTCIP or"Indiana Partnership Program" pairs State government with private long term care insurance companies and their agents.
- Provides high quality long term care insurance containing consumer protection features and Medicaid Asset Protection, a unique State-added benefit.
- Indiana is one of only four states to have developed such a program.

The Indiana Long Term Care Insurance Program is a "public-private partnership." It pairs State government with the private LTC insurance industry. The State government partners are the Office of Medicaid Policy and Planning and the Indiana Department of Insurance. The LTC insurance industry partners are the insurance companies and their agents.

The 4 states that have a "Partnership Program" are California, Connecticut, Indiana, and New York.

Why are there only 4 states with this type of Program? Soon after the Programs were developed, legislation was passed in congress that inhibits the development of these programs in other states. Other states have expressed interest in developing such a Program. However, a piece of federal legislation (OBRA '93) needs to be amended first.

Medicaid Asset Protection

A free benefit found only in Partnership policies!

Policyholders protect assets by purchasing and using their Indiana Partnership policies.

- Assets will not be counted during the Medicaid eligibility process.
- Assets will be not be included in the Medicaid estate recovery process.

“Assets will be disregarded during the Medicaid eligibility process” means assets are protected from Medicaid spend down requirements.

Medicaid Estate Recovery – Federal law requires that all states recover from Medicaid recipients’ estates. So, if a Medicaid recipient dies and has an estate, the state is required to put a claim against the estate for the amount of services Medicaid paid for the individual after the individual was age 55. Assets that were not counted as part of the Medicaid eligibility process may be recovered during the Medicaid Estate Recovery process. Assets protected by using an Indiana Partnership policy are protected from estate recovery.

It is important to understand that this is Medicaid ASSET Protection, not income protection. Indiana has federal approval only for asset protection. (Example: $5,000 of cash is an asset. A social security check is income.) The policyholder may do whatever he/she wishes with the protected assets (including income-producing assets). Protected assets may be given away, spent—whatever.

Medicaid Asset Protection

Total Asset Protection

- Individuals who purchase an Indiana Partnership policy with minimum coverage of the State-set dollar amount ($187,613 for 2004), then exhaust their policy benefits and apply for Medicaid assistance will receive a total asset disregard.

The State-set dollar amount increases each year on January 1, and applies to new policies issued with an effective date of that year. The State-set dollar amount for 2004 is $187,613; for 2005 it will be $196,994.

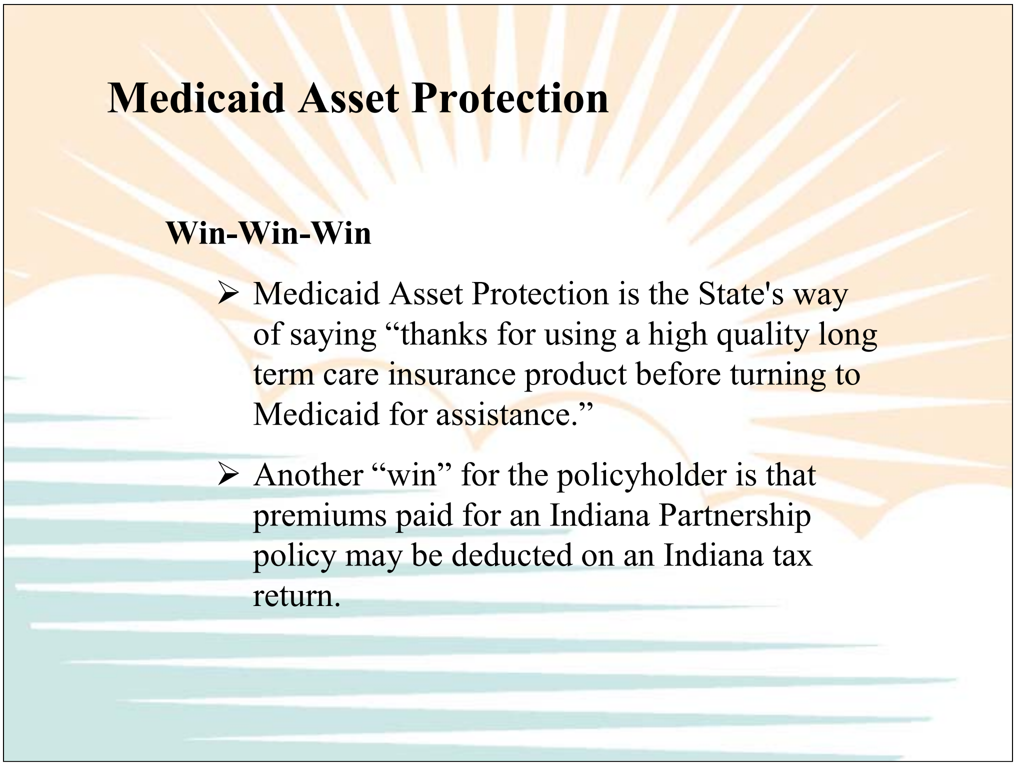
Let's look at an example. If Jane Doe purchased an Indiana Partnership policy that has an effective date of 2004, with maximum coverage of $189,800, then her policy will earn her total asset protection. If she later uses up all of the benefits in her policy and needs Medicaid assistance, Medicaid will not look at any of her assets when determining her eligibility for Medicaid. So, she can have $500,000 (or any amount) of assets, and the assets will not have to be spent down.

Medicaid Asset Protection

Dollar-For-Dollar Asset Protection

- Individuals who purchase an Indiana Partnership policy with initial coverage of less than the State-set dollar amount for that year will receive dollar-for-dollar asset protection.
- They will earn $1 of asset protection for every $1 of benefits paid out by the policy.

Let's look at Jane Doe again. If she buys an Indiana Partnership policy with an effective date of 2004, with maximum coverage of $87,600 (equal to 2 years of nursing home care), then when she later uses up her policy benefits, she will have protected assets equal to the total dollar amount of benefits her policy paid out. Medicaid will not count that amount of assets when determining her eligibility for Medicaid.



It is a win-win-win for all involved!

The policyholder wins because he/she has good quality private insurance to provide for their future long term care needs. They also get to protect their assets through the free benefit of Medicaid Asset Protection. And, Medicaid is available to assist them as a backup safety net, if needed.

The State wins because Indiana residents will be using private insurance first before turning to the state Medicaid program for assistance. This helps keep the Medicaid budget more in line.

And, the insurance companies and agents win because they develop & sell the insurance policies. (The State does NOT receive any of the premium an individual pays for the policy.)

Regarding the Indiana Tax Deduction, 100% of the premium paid by the taxpayer for an Indiana Partnership policy for himself/herself and/or a spouse may be deducted. Refer to an Indiana Tax Return Instruction booklet for more details.

Other Partnership Policy Features

A. Indiana Residents

Indiana Partnership policies may only be sold to Indiana residents. However, insurance policy benefits will be paid regardless of the state in which the policyholder is receiving care.

The exception is the Medicaid Asset Protection feature.

Indiana Resident – means an individual with an Indiana address.

The insurance policy benefits are portable—meaning they can be used in all 50 states.

The asset protection benefit, however, is state-specific. This means that if a policyholder decides to move to another state, the insurance policy will pay its benefits for care in that state. However, upon exhaustion of the policy's benefits, if the individual wants to have their asset protection honored by Medicaid, then he/she will need to return to Indiana to receive Indiana Medicaid assistance.

There is an exception. If another state has a reciprocal agreement in place with Indiana Medicaid, then that State's Medicaid program can honor the asset protection in an Indiana Partnership policy. As of June 2003, Connecticut is the only state with such an agreement. It is important to know that asset protection honored under such an agreement will be done only on a dollar-for-dollar basis.

Other Partnership Policy Features

B. Two Policy Types

- All participating insurance companies must offer a “comprehensive” policy containing nursing home <u>and</u> home & community-based benefits.
- Insurance companies may choose to offer a “long term care facility” policy. This type of policy provides coverage primarily for institutional care.

There are also federally tax-qualified versions of both policy types available.

This would be a good time to discuss the federal tax breaks.

The federal 1996 Health Insurance Portability and Accountability Act (HIPAA) contained provisions that provide limited federal tax breaks for owners of long term care insurance policies that meet certain standards. These policies are better known as “tax-qualified policies.”

The tax breaks are:

Premium deduction: Premiums paid for tax-qualified LTC insurance policies are tax deductible as part of the standard deduction for medical expenses on a federal tax return. This deduction applies for each taxpayer that pays premiums, and are limited according to the age of the taxpayer.

Benefits: Benefits received from a tax-qualified LTC policy are NOT considered income for tax purposes.

If the policy is issued after 1997, it will state on the policy and outline of coverage that is it intended to be a federally tax-qualified policy.

Other Partnership Policy Features

C. Inflation Protection Feature

- All Indiana Partnership policies contain an inflation protection feature.
- With the inflation protection feature, both the daily benefit and the maximum benefit within the policy increase annually at a 5% compounded rate.

Long term care insurance is a product a person buys today to use many years from now. Since the cost of care is increasing each year, it is important to have the policy benefit levels increase each year.

For example: If the cost of care in a nursing home is $121 a day in 2004, if the cost increases at 5% per year, then it will be $154 in 2009, and $188 in 2014.

With an Indiana Partnership policy, that automatically includes a 5% compounded annually inflation protection benefit, the benefits will increase over time. So, a policy purchased in 2003 with a maximum benefit of $88,000, would be worth $112,734 in 2008 and worth $143,880 in 2013.

Without inflation protection, a policy with a benefit of $88,000 in 2003 would still only be worth $88,000 ten years later.

Other Partnership Policy Features

D. Benefit Triggers

- In Indiana Partnership policies, participating companies must use the benefit triggers and definitions selected by the State.

- With all Partnership policies paying out benefits for the same event, it makes it easier for the consumer to comparison shop.

A benefit trigger is the event that has to occur in order for the policy to begin to pay benefits. For instance, with home owners insurance, the house catches on fire.

With long term care insurance, the benefit triggers are needing assistance with a specific number of activities of daily living (such as bathing, dressing, & eating), or having a cognitive impairment.

Other Partnership Policy Features

E. Identification

To identify an Indiana Partnership policy, look for the following box of information on the application, the outline of coverage, or on the front page of the policy:

> THIS POLICY QUALIFIES UNDER THE INDIANA LONG TERM CARE INSURANCE PROGRAM FOR MEDICAID ASSET PROTECTION. THIS POLICY MAY PROVIDE BENEFITS IN EXCESS OF THE ASSET PROTECTION PROVIDED IN THE INDIANA LONG TERM CARE INSURANCE PROGRAM.

This box of language is found on the front page of the policy.

When applying, look for it on the application and outline of coverage.

Indiana Partnership Companies and Agents

- Any company can participate as long as it obtains approval from the Indiana Department of Insurance for a policy that meets the Indiana Partnership standards.

- All participating companies offer both traditional long term care insurance policies and Indiana Partnership policies.

- Before an agent can market an Indiana Partnership policy, he/she must have first completed a 7-hour course about the Indiana Partnership Program.

Indiana Partnership Statistics
(through December 2003)

- Sales
  - 35,243 applications received
  - 29,950 policies purchased
  - 25,103 policies in force
- Purchasers
  - 57% female
  - 77% married
  - 94% first time buyer
  - Average age: 62
  - Age range: 19 – 90

Indiana Partnership Statistics

<u>Policy Features</u>

- 86% of policies purchased include home health care
- 75% of policies qualify for total asset protection
- Common daily benefits chosen: $120 nursing home; $120 home health
- Common elimination periods chosen: 30, 90, or 100 days

The daily benefit amount is chosen by the purchaser. The minimum amount that can be purchased in an Indiana Partnership policy is determined by the State. For 2004 and 2005, that amount is $100 per day for facility care. The companies can offer additional amounts.

An elimination period is the same as a deductible, only it is counted in days instead of dollars.

When choosing a maximum benefit, it is important to consider the amount of assets you want to protect. If you are only interested in protecting $50,000 of assets, then a policy that will earn dollar-for-dollar asset protection is right for you. If you are interested in protecting all of your assets and your income, then a policy with an unlimited maximum benefit (meaning it will pay benefits for however long you need care) is appropriate. If you are wanting to protect all of your assets, but find an unlimited maximum benefit policy to be more than you can afford; then a policy earning total asset protection is the right choice.

Indiana Partnership Statistics

Benefits Used

- 174 policyholders have used benefits
- 53% of benefits used have been for NH care
- 11 have exhausted their policy benefits and are receiving Medicaid assistance without having to spend down their assets

To Learn More:

- Call toll-free 1-866-234-4582 for a free information packet on Indiana Partnership policies.
- Visit www.longtermcareinsurance.IN.gov.
- For specific company or policy information, schedule an appointment with an Indiana Partnership certified agent.

This is where you, the insurance agent, can mention that you are an Indiana-Partnership certified agent. Feel free to add your name, agency name, and phone number under the last bullet point.